UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1997.

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No.: 1-8801

GRAHAM-FIELD HEALTH PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	11-2578230 (I.R.S. Employer Identification No.)
400 Rabro Drive East, Hauppauge, New York (Address of principal executive offices)	11788 (Zip Code)

Registrant's telephone number, including area code: (516) 582-5900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.025 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Not Applicable
(Title of Class)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒.

Based on the closing price on March 31, 1998, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately $195,106,192.

As of the close of business on March 31, 1998, the registrant had 31,156,436 shares of common stock outstanding, of $.025 par value each.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, incorporated by reference into Part III hereof.

GRAHAM-FIELD HEALTH PRODUCTS, INC.

ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 1997

PART I

Item 1. ***Business:***

The Company

Graham-Field Health Products, Inc. ("Graham-Field" or the "Company") is a leading manufacturer and distributor of healthcare products targeting the home healthcare, medical/surgical, rehabilitation and long-term care markets in North America, Europe, Central and South America, and Asia. The Company markets and distributes approximately 45,000 products under its own brand names and under suppliers' names throughout the world, a significant portion of which is derived from the United States. The Company maintains manufacturing and distribution facilities throughout North America. The Company continuously seeks to expand its product lines by increasing the number of distributorship agreements with suppliers, forming strategic alliances and acquiring other companies and product lines. The Company's products are marketed principally to hospital, nursing home, physician, home healthcare and rehabilitation dealers, healthcare product wholesalers and retailers, including drug stores, catalog companies, pharmacies and home-shopping related businesses.

The Company's principal products and product lines include wheelchairs and power wheelchair seating systems, mobility products and bathroom safety products, medical beds and patient room furnishings, blood pressure and diagnostic products, adult incontinence products, specialty seating products, wound care and urologicals, ostomy products, diabetic products, obstetrical supplies, nutritional supplements, therapeutic support systems and respiratory equipment and supplies. By offering a wide range of products from a single source, the Company enables its customers to reduce purchasing costs, including transaction, freight and inventory expenses.

The Company's strategic objective is to be the leading provider of medical products to the rapidly growing home healthcare, medical/surgical, rehabilitation and long-term care markets by offering a comprehensive product line, single-source purchasing and technologically advanced, cost-effective delivery systems. The cornerstone of the Company's sales and marketing strategy is the Company's Consolidation Advantage Program ("C.A.P."). Through C.A.P. the Company strives to become the most efficient and reliable low-cost provider of medical products by offering the Company's customers the ability to reduce their operating costs significantly by consolidating the purchase of multiple product lines through a single source. The Company's sales and marketing representatives consult with the Company's customers to identify the cost efficiencies and savings that can be derived from purchasing all of their product needs through the Company. By consolidating the purchase of multiple products through a single source, the Company's customers can significantly reduce their operating costs associated with the purchasing process, including the reduction of delivery expenses, administrative costs and other expenses. The Company believes that its C.A.P. program significantly improves the level of service to its customers by streamlining the purchasing process, decreasing order turnaround time, reducing delivery expenses, and providing inventory on demand.

In December 1997, the Company acquired Fuqua Enterprises, Inc. (currently, Lumex/Basic American Holdings, Inc.) ("Fuqua"). The acquisition of Fuqua has positioned Graham-Field as one of the leading manufacturers of durable medical products in North America. The Company believes that the strategic combination of Graham-Field and Fuqua will significantly enhance Graham-Field's manufacturing capabilities, expand Graham-Field's presence in the home healthcare, medical/surgical and rehabilitation markets, and broaden Graham-Field's product line. The Company intends to utilize Fuqua's existing relations in the long-term and acute care markets to cross-sell its products into these markets. The Company believes that Graham-Field's distribution network and advanced technology systems will also provide significant growth opportunities for Fuqua's proven manufacturing capabilities and leading product lines.

Recent Acquisitions

Graham-Field has recently completed the following acquisitions:

Date	Company	Line of Business
September 1996	V.C. Medical Distributors, Inc.	Medical products distributor in Puerto Rico.
November 1996	Everest & Jennings International Ltd.	Manufacturer and distributor of wheelchairs and homecare beds.
February 1997	Motion 2000 Inc. and Motion 2000 Quebec Inc.	Independent wholesalers of rehabilitation medical products in Canada.
March 1997	Kuschall of America, Inc.	Manufacturer of pediatric wheelchairs, high performance adult wheelchairs and other rehabilitation products.
June 1997	LaBac Systems, Inc.	Manufacturer of custom power wheelchair seating systems and manual wheelchairs.
August 1997	Medi-Source, Inc.	Wholesaler of medical sundry products.
August 1997	Medical Supplies of America, Inc.	Distributor of home healthcare products.
December 1997	Fuqua Enterprises, Inc. (currently, Lumex/Basic American Holdings, Inc.)	Manufacturer and distributor of durable medical products and furnishings.

V.C. Medical. In September 1996, Graham-Field acquired V.C. Medical Distributors, Inc. ("V.C. Medical"), a wholesale distributor of medical products in Puerto Rico. V.C. Medical currently operates under the name "GF Express (Puerto Rico)," and provides "same-day" and "next-day" service to home healthcare dealers of certain strategic home healthcare products, including patient aids, Everest & Jennings wheelchairs and homecare beds, adult incontinence products and nutritional supplements. Through GF Express (Puerto Rico), Graham-Field has increased its presence in Puerto Rico.

Everest & Jennings. In November 1996, Graham-Field acquired Everest & Jennings International Ltd. ("Everest & Jennings"). Through its subsidiaries, Everest & Jennings manufactures a broad line of wheelchairs and distributes homecare beds. Everest & Jennings' principal manufacturing and distribution facilities are located in Earth City, Missouri; Toronto, Canada and Guadalajara, Mexico.

Motion 2000 and Motion Quebec. In February 1997, Graham-Field acquired Motion 2000 and its wholly-owned subsidiary, Motion Quebec. Motion 2000 and Motion Quebec currently operate under the name Graham-Field (Canada), as a division of Everest & Jennings Canadian Limited, a wholly-owned subsidiary of the Company ("Everest & Jennings Canada"). Graham Field (Canada) distributes a line of rehabilitation products, including walkers, rollators, cushion products and pediatric wheelchair products, and manufactures seating products, and has become the primary distribution company for the Company and Everest & Jennings in Canada. The strategic combination of Graham-Field (Canada) with Everest & Jennings' operations, along with Graham-Field's broad product lines, has positioned Graham-Field as one of the leading suppliers of the broadest range of products available from a single source in Canada, and as a leading supplier of rehabilitation products, including high performance adult and pediatric wheelchairs, home care wheelchairs, patient aids and other wheelchair products. The business combination has enabled Graham-Field to expand its C.A.P. program in the Canadian marketplace, and increase its revenue base in the Canadian marketplace.

Kuschall. In March 1997, Everest & Jennings, a wholly-owned subsidiary of the Company, acquired Kuschall of America, Inc. ("Kuschall"), a manufacturer of pediatric wheelchairs, high-performance adult

wheelchairs and other rehabilitation products. The acquisition of Kuschall has provided Graham-Field with additional manufacturing capabilities and expanded Graham-Field's presence in the rehabilitation and pediatric wheelchair market. The pediatric wheelchair product line of Kuschall has broadened Everest & Jennings' rehabilitation product lines, and provided Graham-Field with the ability to market and distribute its products into Japan, New Zealand and Australia through Kuschall's established distributor relationships.

LaBac. In June 1997, Graham-Field acquired LaBac Systems, Inc. ("LaBac"), a manufacturer and distributor of custom power wheelchair seating systems and manual wheelchairs. The acquisition of LaBac has provided Graham-Field with one of the premier custom power wheelchair seating product lines in the healthcare industry, expanded the Everest & Jennings power wheelchair product lines and enhanced the manufacturing and research and development capabilities of Graham-Field. The LaBac products, which have a reputation for excellence and quality, have broadened the Everest & Jennings and Kuschall product lines and provided additional support and expertise to Graham-Field in the rehabilitation market.

Medi-Source. In August 1997, Graham-Field acquired Medi-Source, Inc. ("Medi-Source"), a wholesale distributor of medical sundry products to the medical/surgical market. The acquisition of Medi-Source has expanded Graham-Field's presence in the medical/surgical market.

Medapex. In August 1997, Graham-Field acquired Medical Supplies of America, Inc. ("Medapex"), a wholesale distributor of home healthcare products. The acquisition of Medapex has provided Graham-Field with additional distribution capabilities in the Southeast region of the United States, and enabled Graham-Field to utilize Medapex's telemarketing operations to provide increased customer service to the combined customer base.

Fuqua. In December 1997, Graham-Field acquired Fuqua. The medical products business of Fuqua, through its subsidiaries, Lumex Medical Products, Inc. ("Lumex"), Basic American Medical Products, Inc. ("Basic American") and Prism Enterprises, Inc. ("Prism"), manufactures and distributes a variety of products, including medical beds, patient room furnishings, bathroom safety products, mobility products, specialty seating products, vacuum pumps, heat and cold packs, and therapeutic support systems.

The acquisition of Fuqua has positioned Graham-Field as one of the leading manufacturers of durable medical products in North America. The acquisition has provided Graham-Field with the well-established product brand names of Lumex, Basic American and Prism, and expanded Graham-Field's presence in the acute and long-term healthcare markets.

In connection with the acquisition of the medical products business of Fuqua, the Company also acquired the leather tanning operations of Fuqua (the "Leather Operations"), which supplies finished leather to leather product manufacturers both domestically and internationally. In order to concentrate in its area of expertise and focus in the medical products industry, Graham-Field sold the Leather Operations on January 27, 1998. The cash proceeds from the sale of the Leather Operations were used to retire the debt acquired in connection with the Fuqua acquisition.

Products

Graham-Field markets and distributes approximately 45,000 healthcare products under its own brand names and under suppliers' names. Graham-Field's products are marketed to dealers and other customers, principally hospital, nursing home, physician, home healthcare and rehabilitation dealers, healthcare product wholesalers and retailers, including drug stores, catalog companies, pharmacies and home-shopping related businesses.

Product lines marketed by Graham-Field include wheelchairs and power wheelchair seating systems, mobility products and bathroom safety products, medical beds and patient room furnishings, blood pressure and diagnostic products, adult incontinence products, specialty seating products, wound care and urologicals, ostomy products, diabetic products, obstetrical supplies, nutritional supplements, therapeutic support systems and respiratory equipment and supplies.

The acquisition of Fuqua has enhanced Graham-Field's product offering and expanded Graham-Field's presence into the long-term, acute care and consumer markets. The Company believes that the expanded product offering and new markets serviced by Basic American and Prism will provide cross-selling opportunities and present growth opportunities for Graham-Field.

Basic American operates through its divisions, Simmons Health Care, Omni Manufacturing and SSC Medical, which manufacture and distribute medical beds, patient room furnishings, patient aids and mobility products primarily for the long-term and acute care markets. Basic American serves as one-stop shopping for a customer looking to refurbish or newly construct a long-term care patient room. Consistent with the one-stop shopping approach, Basic American maintains several in-house interior designers who provide design services to customers looking to refurbish or construct long-term care facilities.

Prism manufactures and distributes therapeutic heat and cold pack products, and obstetrical vacuum pump systems for the acute care, long-term care and consumer markets. Prism also sells heat and cold packs through a "show dealer" network, which includes cart/kiosk retailing programs located in consumer outlets.

Graham-Field's principal manufactured and proprietary products include the following:

Product Line	Primary Products
Everest & Jennings	Wheelchairs
Lumex	Mobility products, bathroom safety products, and specialty seating products
Smith & Davis	Homecare beds
LaBac	Power wheelchair seating systems
Omni	Medical beds and furnishings
Simmons	Medical beds and furnishings
SSC Medical	Medical beds and furnishings
Prism	Obstetrical supplies, heat and cold packs
Temco	Mobility products, bathroom safety products, and specialty seating products
Labtron	Blood pressure and diagnostic products
John Bunn	Respiratory products

During the years ended December 31, 1997, 1996, and 1995, sales of Graham-Field's line of sphygmomanometers accounted for 3%, 14% and 11%, respectively, of Graham-Field's revenues. Graham-Field's lines of wheelchairs, ambulatory and patient aids and incontinence products accounted for approximately 33%, 8% and 7%, respectively, of Graham-Field's revenues in 1997. No other product line or product accounted for more than 5% of annual revenues in 1997. The number of products marketed by Graham-Field has increased from approximately 20,000 in 1992 to approximately 45,000 in 1997.

During the year ended December 31, 1997, approximately 49% of Graham-Field's revenues were derived from products manufactured by Graham-Field, approximately 20% were derived from imported products, and approximately 31% were derived from products purchased from domestic sources.

Value-Added Services

Consolidation Advantage Program. The C.A.P. program is the cornerstone of Graham-Field's sales and marketing strategy. Through C.A.P., Graham-Field strives to become the most efficient and reliable low-cost provider of medical products. Graham-Field's sales and marketing representatives consult with Graham-Field's customers to identify the purchasing efficiencies and cost savings that can be derived from consolidating their purchases of medical products with Graham-Field. By consolidating the purchase of multiple product lines through a single source, Graham-Field's customers can significantly reduce their operating costs. Graham-Field believes that C.A.P. significantly improves the level of service to Graham-Field

REPORT OF INDEPENDENT AUDITORS

Stockholders and Board of Directors
Graham-Field Health Products, Inc.

We have audited the accompanying consolidated balance sheets of Graham-Field Health Products, Inc. and subsidiaries (the "Company") as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Graham-Field Health Products, Inc. and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Melville, New York
March 23, 1998,
except for Note 7,
as to which the date
is April 13, 1998

GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1997	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,430,000	$ 1,241,000
Accounts receivable, less allowance for doubtful accounts of $13,199,000 and $7,243,000, respectively	91,451,000	45,703,000
Inventories	73,532,000	48,245,000
Other current assets	8,103,000	3,023,000
Recoverable and prepaid income taxes	4,422,000	256,000
Deferred tax assets	10,695,000	—
Asset held for sale	61,706,000	—
TOTAL CURRENT ASSETS	254,339,000	98,468,000
Property, plant and equipment, net	35,955,000	11,264,000
Excess of cost over net assets acquired, net of accumulated amortization of $11,512,000 and $8,185,000, respectively	240,071,000	91,412,000
Deferred tax assets	3,044,000	938,000
Other assets	13,709,000	5,112,000
TOTAL ASSETS	$547,118,000	$207,194,000

See notes to consolidated financial statements.

GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS — (Continued)

	December 31, 1997	December 31, 1996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Credit facility	$ 65,883,000	$ 13,985,000
Current maturities of long-term debt	2,619,000	2,016,000
Accounts payable	33,888,000	22,995,000
Acceptances payable	—	19,800,000
Accrued expenses	54,331,000	25,608,000
TOTAL CURRENT LIABILITIES	156,721,000	84,404,000
Long-term debt and Senior Subordinated Notes	107,733,000	6,535,000
Other long-term liabilities	13,816,000	1,752,000
TOTAL LIABILITIES	278,270,000	92,691,000
STOCKHOLDERS' EQUITY		
Series A preferred stock, par value $.01 per share: authorized shares 300,000, none issued	—	—
Series B preferred stock, par value $.01 per share: authorized shares 6,100, issued and outstanding 6,100	28,200,000	28,200,000
Series C preferred stock, par value $.01 per share: authorized shares 1,000, issued and outstanding 1,000	3,400,000	3,400,000
Common stock, par value $.025 per share: authorized shares 60,000,000, issued and outstanding 30,574,982 and 19,650,744, respectively	764,000	492,000
Additional paid-in capital	279,341,000	101,573,000
(Deficit)	(42,953,000)	(18,995,000)
Cumulative translation adjustment	96,000	(12,000)
	268,848,000	114,658,000
Notes receivable from sale of shares	—	(155,000)
TOTAL STOCKHOLDERS' EQUITY	268,848,000	114,503,000
Commitments and contingencies		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$547,118,000	$207,194,000

See notes to consolidated financial statements.

GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	1997	1996	1995
Net revenues:			
Medical equipment and supplies	$261,981,000	$143,083,000	$112,113,000
Interest and other income	1,162,000	559,000	301,000
	263,143,000	143,642,000	112,414,000
Costs and expenses:			
Cost of revenues	188,695,000	99,641,000	78,525,000
Selling, general and administrative	70,646,000	34,578,000	29,428,000
Interest expense	7,260,000	2,578,000	2,720,000
Purchased in-process research and development costs	3,300,000	12,800,000	—
Merger and restructuring related charges	23,470,000	3,000,000	—
	293,371,000	152,597,000	110,673,000
(Loss) income before income taxes (benefit) and extraordinary item	(30,228,000)	(8,955,000)	1,741,000
Income taxes (benefit)	(7,335,000)	2,918,000	694,000
(Loss) income before extraordinary item	(22,893,000)	(11,873,000)	1,047,000
Extraordinary loss on early retirement of debt (net of tax benefit of $383,000)	—	(736,000)	—
Net (loss) income	(22,893,000)	(12,609,000)	1,047,000
Preferred stock dividends	1,065,000	—	—
Net (loss) income available to common stockholders	$(23,958,000)	$(12,609,000)	$ 1,047,000
Net (loss) income per common share — basic and diluted:			
(Loss) income before extraordinary item	$ (1.16)	$ (.76)	$ .07
Extraordinary loss on early retirement of debt	—	(.05)	—
Net (loss) income	$ (1.16)	$ (.81)	$ .07
Weighted average number of common shares outstanding	20,600,000	15,557,000	14,315,000

See notes to consolidated financial statements.

GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Total	Series B Preferred Stock	Series C Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	(Deficit)	Treasury Stock Shares	Treasury Stock Amount	Cumulative Translation Adjustment	Notes Receivable From Sale of Shares
BALANCE, DECEMBER 31, 1994	$ 56,152,000			13,921,649	$348,000	$ 63,149,000	$ (7,345,000)	0	$ 0		
Issuance of common stock on exercise of stock options	172,000			86,500	2,000	220,000	—	(14,518)	(50,000)		
Regulation S offering, net	3,471,000			1,071,655	27,000	3,444,000	—	—	—		
Tax benefit from exercise of stock options	38,000			—	—	38,000	—	—	—		
Retirement of Treasury Stock	—			(14,518)	—	(50,000)	—	14,518	50,000		
Warrants issued in connection with debt	90,000			—	—	90,000	—	—	—		
Net income	1,047,000			—	—	—	1,047,000	—	—		
BALANCE, DECEMBER 31, 1995	60,970,000			15,065,286	377,000	66,891,000	(6,298,000)	0	0		
Issuance of common stock on exercise of stock options	550,000			153,255	4,000	711,000	—	(45,517)	(165,000)		
Issuance of stock in connection with acquisitions	65,809,000	$28,200,000	$3,400,000	4,477,720	112,000	34,097,000	—	—	—		
Tax benefit from exercise of stock options	38,000	—	—	—	—	38,000	—	—	—		
Retirement of Treasury Stock	—	—	—	(45,517)	(1,000)	(164,000)	—	45,517	165,000		
Dividend accrued on Preferred Stock	(88,000)	—	—	—	—	—	(88,000)	—	—		
Translation adjustment	(12,000)	—	—	—	—	—	—	—	—	$(12,000)	
Notes receivable from officers for sale of shares	(155,000)	—	—	—	—	—	—	—	—	—	$(155,000)
Net loss	(12,609,000)	—	—	—	—	—	(12,609,000)	—	—	—	—
BALANCE, DECEMBER 31, 1996	114,503,000	28,200,000	3,400,000	19,650,744	492,000	101,573,000	(18,995,000)	0	0	(12,000)	(155,000)
Issuance of common stock on exercise of stock options	1,212,000	—	—	527,975	13,000	2,816,000	—	(134,870)	(1,617,000)	—	—
Issuance of stock in connection with acquisitions	175,944,000	—	—	10,490,133	262,000	175,682,000	—	—	—	—	—
Issuance of common stock for accrued dividends	364,000	—	—	41,000	1,000	363,000	—	—	—	—	—
Tax benefit from exercise of stock options	520,000	—	—	—	—	520,000	—	—	—	—	—
Retirement of Treasury Stock	—	—	—	(134,870)	(4,000)	(1,613,000)	—	134,870	1,617,000	—	—
Dividend accrued on Preferred Stock	(1,065,000)	—	—	—	—	—	(1,065,000)	—	—	—	—
Translation adjustment	108,000	—	—	—	—	—	—	—	—	108,000	—
Notes receivable from officers	155,000	—	—	—	—	—	—	—	—	—	155,000
Net loss	(22,893,000)	—	—	—	—	—	(22,893,000)	—	—	—	—
BALANCE, DECEMBER 31, 1997	$268,848,000	$28,200,000	$3,400,000	30,574,982	$764,000	$279,341,000	$(42,953,000)	0	$ 0	$ 96,000	$ 0

See notes to consolidated financial statements.

GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 1997	1996	1995
OPERATING ACTIVITIES			
Net (loss) income	$ (22,893,000)	$(12,609,000)	$ 1,047,000
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	6,745,000	3,539,000	3,347,000
Deferred income taxes	(10,878,000)	2,139,000	475,000
Provisions for losses on accounts receivable	6,749,000	606,000	451,000
Gain on sale of product line	—	(360,000)	—
Gain on sale of marketable securities	(41,000)	—	—
Loss on disposal of property, plant and equipment	121,000	—	3,000
Purchased in-process research and development costs	3,300,000	12,800,000	—
Non-cash amounts included in merger and restructuring related charges	20,754,000	1,191,000	—
Non-cash amounts included in extraordinary loss	—	476,000	—
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(30,247,000)	(11,279,000)	(3,117,000)
Inventories, other current assets and recoverable and prepaid income taxes	(9,685,000)	(5,269,000)	(1,000)
Accounts and acceptances payable and accrued expenses	(1,568,000)	12,536,000	(5,312,000)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(37,643,000)	3,770,000	(3,107,000)
INVESTING ACTIVITIES			
Proceeds from sale of marketable securities	104,198,000	—	—
Purchase of marketable securities	(104,157,000)	—	—
Purchase of property, plant and equipment	(6,555,000)	(1,085,000)	(709,000)
Acquisitions, net of cash acquired	(12,009,000)	(4,558,000)	(668,000)
Proceeds from the sale of property, plant, and equipment	240,000	—	19,000
Proceeds from sale of product line	—	500,000	—
Proceeds from sale of assets under leveraged lease	—	487,000	—
Notes receivable from officers	—	(155,000)	—
Net (increase) decrease in other assets	(4,194,000)	(228,000)	116,000
NET CASH (USED IN) INVESTING ACTIVITIES	$ (22,477,000)	$ (5,039,000)	$(1,242,000)

See notes to consolidated financial statements.

GRAHAM-FIELD HEALTH PRODUCTS, INC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Year Ended December 31, 1997	1996	1995
FINANCING ACTIVITIES			
Proceeds from issuance of Senior Subordinated Notes	$ 100,000,000	$ —	$ —
Proceeds from notes payable to bank and long-term debt	279,619,000	27,310,000	2,054,000
Principal payments on long-term debt and notes payable	(292,645,000)	(35,576,000)	(1,226,000)
Payments on acceptances payable, net	(19,800,000)	—	—
Proceeds on exercise of stock options	1,212,000	550,000	172,000
Proceeds from issuance of common stock, net	—	—	3,471,000
Payment of preferred stock dividends	(435,000)	—	—
Proceeds from issuance of preferred stock in connection with an acquisition	—	10,000,000	—
Payments for note issue costs	(4,642,000)	—	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	63,309,000	2,284,000	4,471,000
INCREASE IN CASH AND CASH EQUIVALENTS	3,189,000	1,015,000	122,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,241,000	226,000	104,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,430,000	$ 1,241,000	$ 226,000
SUPPLEMENTARY CASH FLOW INFORMATION:			
Interest paid	$ 3,130,000	$ 2,975,000	$ 2,522,000
Income taxes paid	$ 4,094,000	$ 187,000	$ 266,000

See notes to consolidated financial statements.

GRAHAM-FIELD HEALTH PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997

1. Summary of Significant Accounting Policies

Description of Business: Graham-Field Health Products, Inc. ("Graham-Field" or the "Company") is a leading manufacturer and distributor of healthcare products targeting the home healthcare, medical/surgical, rehabilitation and long-term care markets in North America, Europe, Central and South America, and Asia. The Company markets and distributes approximately 45,000 products under its own brand names and under suppliers' names throughout the world. The Company maintains manufacturing and distribution facilities throughout North America. The Company continuously seeks to expand its product lines by increasing the number of distributorship agreements with suppliers, and forming strategic alliances and acquiring other companies and product lines. The Company's products are marketed principally to hospital, nursing home, physician, home healthcare and rehabilitation dealers, healthcare product wholesalers and retailers, including drug stores, catalog companies, pharmacies and home-shopping related businesses.

The Company's principal products and product lines include wheelchairs and power wheelchair seating systems, mobility products and bathroom safety products, medical beds and patient room furnishings, blood pressure and diagnostic products, adult incontinence products, specialty seating products, wound care and urologicals, ostomy products, diabetic products, obstetrical supplies, nutritional supplements, therapeutic support systems and respiratory equipment and supplies. By offering a wide range of products from a single source, the Company enables its customers to reduce purchasing costs, including transaction, freight and inventory expenses.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries, each of which is wholly-owned. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories: Inventories are valued at the lower of cost or market. Cost is determined principally on the standard cost method for manufactured goods and on the average cost method for other inventories, each of which approximates actual cost on the first-in, first-out method.

Property, Plant and Equipment: Property, plant and equipment is recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line method over the lesser of the estimated useful lives of the related assets or, where appropriate, the lease term.

Excess of Cost Over Net Assets Acquired: Excess of cost over net assets acquired is amortized on a straight-line basis over 30 to 40 years. The carrying value of such costs are reviewed by management as to whether the facts and circumstances indicate that an impairment may have occurred. If this review indicates that such costs or a portion thereof will not be recoverable, as determined based on the undiscounted cash flows of the entities acquired, over the remaining amortization period, the carrying value of these costs will be measured by comparing the fair value of the group of assets acquired to the carrying value. If fair values are unavailable, the carrying value will be measured by comparing the carrying values to the discounted cash flows. Based upon present operations and strategic plans, management believes that no impairment of the excess of cost over net assets acquired has occurred.